Q&A for FY2024 Nine Months Results Briefing (Summary)

Yaskawa Electric Corporation

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[Speakers]

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(Note):

Motion Control: Motion Control segment

AC servo: AC servo & controller business (Motion Control segment)

Drives: Drives business (Motion Control segment)

Robotics: Robotics segment

System Engineering: System Engineering segment

Other: Other segment

Q At the previous financial results briefing (FY24 2Q), it was said that orders in the 3Q would need to be about 140 billion yen to achieve the full-year plan, but the actual results were lower, and despite the downward revision of the full-year plan, the achievement of the plan seems to be quite difficult. How do you achieve the plan?

A Orders received in the 3Q were weaker than expected due to the suspension of investment in South Korea's semiconductor-related business and the absence of capital investment in the U.S. through November due to the US presidential election. On the other hand, shorter delivery of products became the norm, and the orders with long delivery time have disappeared, so the backlog of orders with long delivery time in Motion Control decreased by about 8 billion yen at the end of the 3Q compared to the end of the 2Q. If we add this back up, orders received in the 3Q for Motion Control are positive in terms of QoQ, which is not a bad situation. As for Robotics, the orders for certain projects expected in Europe and China in the 3Q were shifted to the 4Q. In fact, revenue reflect actual demand rather than orders, and although revenue in South Korea and the U.S. were weaker than expected in the 3Q, overall revenue was not far from expectations. The plans for the 4Q have not changed significantly since the last earnings announcement. Demand for semiconductors and electronic components in Japan is rising to make up for the sluggish semiconductor-related demand in South Korea. In addition, orders of oil & gas-related business and PV inverters in the US began to move in December after the presidential election, as well as 3C-related business in China. In addition to these products, the backlog of orders for Motion Control with past delivery date which is worth about 8 billion yen is currently under negotiation. Of this, about 4 billion yen is expected to be added to revenue in the 4Q. Also, orders for short delivery dates are starting to come in, and orders for semiconductors and electronic components in Japan in the 4Q are expected to be reflected in revenue immediately.

Q I understand that you have maintained the 4Q plan that was revised at the time of the previous financial results announcement. Does this mean that you have not changed the plan for the 4Q of FY24, excluding the portion that did not reach the company's expectations in the 3Q?

A That's right. The increase in Motion Control revenue from the 3Q to the 4Q is about +9.5 billion yen. Of this, we expect to see about +3 billion yen with the rise of semiconductor and electronics parts-related revenue, +2 billion yen in the U.S., and +4 billion yen in the backlogs with past delivery dates turning into revenue. Robotics revenue is expected to increase by about 8.5 billion yen from backlog sales. We plan sales recording of large-scale projects, so it is visible. In order to make up for the weakness in South Korea's semiconductor-related business as a result of these factors, we have maintained the 4Q forecast from the previous earnings announcement.

Q FY25 will be the last year of the current mid-term business plan (hereafter, MTP) "Realize 25," and it seems difficult to achieve the target of 100 billion yen in operating profit. Under these circumstances, what areas will you focus on?

A First of all, we want to finish this fiscal year (FY24), which will be the launch pad for FY25, properly. It will certainly be difficult to achieve the volume set in the MTP, but in addition to maintaining the level of fixed expenses, which we are strongly restraining at present, we will work to further improve the marginal profitability and make sure to improve the quality of management. If revenue in FY25 can increase by about 50 billion yen from FY24, about 50% of that will increase as marginal profit. The issue is how we can operate without increasing expenses, but if we can achieve this, we will be able to achieve our operating profit margin target of 15%. We will stick to the profit margin.

Q Is there any possibility of revising your approach to capital efficiency and capital investment plan during the current fiscal year?

A The planned capital investment is not an investment to increase volume, but rather an investment to incorporate added value, improve productivity, and improve operational efficiency by reorganizing production bases, so we will implement it as planned. At the same time, we will continue to actively sell cross-shareholdings and convert shares of companies that we have strategically invested in in the past into cash, and return the resulting cash to shareholders. Rather than aiming to become cash rich, we will maintain our current leverage and return the surplus to shareholders.

Q What is the market situation in the U.S. by segment?

A In AC servo, semiconductor-related sales are on a recovery trend. In Drives, investments related to oil & gas and PV inverters, which was on a wait-and-see basis, are starting to move. As for Robotics, investment in automation has resumed in the general industrial market since December. The overall economy is not bad, and I think the market is doing well.

Q Is there a change in demand for AC servo?

A Although there has been a temporary correction due to the postponement of semiconductor-related capital investment in South Korea, Japan and Taiwan have maintained good performance. In the U.S., orders received in the 3Q were lower than expected due to shorter product delivery times, but semiconductor-related customers are now planning to invest aggressively in the future, and we expect a recovery in the 4Q and beyond.

Q What is the status of orders received in China?

A Overall, the total revenue in the first nine months were negative compared to the corresponding period of previous fiscal year due to the sales of large-scale orders for robots in the first half of last year. Orders received were also slightly negative, but rose considerably in December, and the cumulative total up to December was positive YoY. By business segment, although this fiscal year there were no large orders related to solar panels, which occurred in the first half of last year, quarterly orders for AC servo have remained flat this year, which used to have a seasonal tendency to gradually decrease until before the Chinese New Year. For Drives, new projects, such as vacuum pumps, have been obtained. Orders for Robotics have also increased YoY. Local manufacturers focusing on ICE vehicles continue to invest aggressively, and orders for related projects have been received. The general industry is also steady due to the government's measures to encourage equipment renewal. In addition, there is a growing demand for equipment that complies with safety standards to manufacture products for export by customers aiming to expand globally. It is difficult to procure products that are adaptable to such equipment from local manufacturers, and we often receive inquiries. The upgrading of the manufacturing industry in China is supporting our company's business in China.

Q Your company has high expectations for its AI-related business, including its partnership with NVIDIA. What are your future prospects?

A AI is an essential technology for MOTOMAN NEXT. We are currently working on more than 20 projects with leading manufacturers in various industries, including the medical field, by combining NVIDIA's GPU and our company's own AI. We are also highly evaluated by customers. Together with Alliom, our company's original AI, and the YRM controller, MOTOMAN NEXT is a key component to realize the i^3-Mechatronics concept. For the time being, we are taking action with a focus on expanding the end market by increasing the number of cases, not the number of units.

Q In the analysis of the changes in operating profit in the FY24 full-year forecast, the impact of the decrease in profit due to the decrease in revenue of 18.1 billion yen is about 6 billion yen worse than the full-year forecast of 12 billion yen at the time of the 2Q results announcement. On the other hand, the outlook for revenue is 5 billion yen lower. What is the reason for the decrease in operating profit more than the decrease in revenue?

A In the 3Q, the yen depreciated more than the exchange rates assumed at the 2Q financial results announcement, and the assumed exchange rates for the 4Q were revised. As a result of these, revenue in the FY24 full-year plan announced this time was raised by about 8 billion yen. In addition, since the decrease in revenue excluding the impact of foreign exchange is about 13 billion yen, the decrease in operating profit due to the decrease in revenue which is multiplied by the marginal profitability is over 6 billion yen.

Q Considering the rapid appreciation of the yen in September, how much of the 120.5 billion yen in orders received in 3Q will decrease due to foreign exchange? What is the expected level of orders in 4Q?

A From 2Q to 3Q, the impact of foreign exchange was slightly in the direction of appreciation of the yen, and revenue was affected by about 3 billion yen. The impact on orders was about the same level. Judging from the situation in December, orders for Motion Control in 4Q are recovering for AC servos in Japan and drives in the U.S. In addition, there was a temporary adjustment of orders with long delivery times of 8 billion yen in the 3Q, but the adjustment will be normalized, so the 4Q order will be higher. Robotics are performing well in the U.S.. In addition, orders in China and Europe are expected to be higher due to the delay of large-scale projects from 3Q to 4Q.

Q Mr. Murakami will be in charge of China from March 2025. What is your mindset and what goals do you hope to achieve?

A I have long experience in corporate planning and have handled many investment projects in China since the late 2000s. I would like to make use of that experience and engage in top sales by utilizing my contacts with the top management of Chinese companies. There are many strong companies in China regardless of the market, and they are becoming global companies. With Yaskawa's global support system, we hope to support the global expansion of Chinese companies and build strong relationships with future global companies. In addition, our business in China has been based on the assumption that the market will grow, but the environment has changed drastically, and we will need to review our management structure. I would like to create a simple structure that is strong enough to make profits even if volume does not grow.